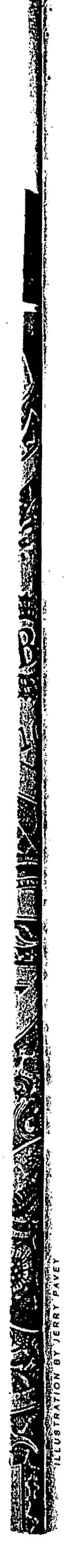
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WILL THE BABY BOOM BE READY FOR RETIREMENT?

BY WILLIAM G. GALE

The baby boom generation—the roughly 76 million people born between 1946 and 1964—has been reshaping American society for five decades. From jamming the nation's schools in the 1950s and 1960s, to crowding labor markets and housing markets in the 1970s and 1980s, to affecting consumption patterns almost continuously, boomers have altered economic patterns and institutions at each stage of their lives. Now that the leading edge of the generation has turned 50, the impending collision between the boomers and the nation's retirement system is naturally catching the eye of policymakers and the boomers themselves.

Retirement income security in the United States has traditionally been based on the so-called three-legged stool: Social Security, private pensions, and other personal saving. Since World War II the system has served the elderly well: the poverty rate among elderly households fell from 35 percent in 1959 to 11 percent in 1995.

But the future is uncertain. Partly because of the demographic bulge created by the baby boomers, Social Security faces a long-term imbalance. The solution, even if it involves privatization, must in some way cut benefits or raise taxes. The private pension system has changed dramatically in ways that give workers increased discretion over participation, contribution, and investment decisions and easier access to pension funds before retirement—thus raising questions about how well future pensions can help finance retirement. Personal saving, also problematic, has remained anemic for over a decade. Net personal saving other than pensions has virtually disappeared.

These developments would be enough to raise concern about retirement preparations under the best of circumstances. But the prospect of a huge generation edging unprepared toward retirement raises worrisome questions about the living standards of the baby boomers in retirement, the concomitant pressure on government policies, and the stability of the nation's retirement system.

Are the baby boomers making adequate preparations for retirement? In part, the answer depends on what is meant by "adequate." One definition is to have enough resources to maintain preretirement living standards in retirement. A rule of thumb often used by financial planners is that retirees should be able to meet this goal by replacing 60–80 percent of preretirement income. Retired households can maintain their preretirement standard of living with less income because they have more leisure time, fewer household members, and lower expenses. Taxes are lower because retirees escape payroll taxes and the income tax is progressive. And mortgages have, for the most part, been paid off. On the other hand, older households

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may face higher and more uncertain medical expenses, even though they are covered by Medicare.

From a public policy perspective, assuring that retirees maintain 100 percent of preretirement living standards may be overly ambitious. But should policymakers aim to ensure that they maintain 90 percent of their living standards? Or that they stay out of poverty? Or use some other criterion? Retirement planning takes time, and these issues need to be addressed sooner rather than later.

A second big question is how to measure how well baby boomers are preparing for retirement. Studies that focus only on personal saving put aside for retirement yield bleak conclusions. One found that in 1991 the median household headed by a 65–69 year old had financial assets of only $14,000. But expanding the measure to include Social Security, pensions, housing, and other wealth boosts median wealth to about $270,000.

A third issue—crucial but as yet little explored—is *which* baby boomers are not providing adequately for retirement and how big the gap is between what they have and what they should have. Some boomers are doing extremely well, others quite poorly. Summary averages for an entire generation may not be useful as descriptions of the problem or as suggestions for policy.

The uncertain prospects for the baby boomers in retirement are particularly troubling because, as a society, we as yet understand little about the dynamics of retirement. Only one or two generations of Americans have had lengthy retirements, and the crucial retirement issues—health care, asset markets, Social Security, life span—keep changing rapidly, making long-term predictions even harder.

> The prospect of a huge generation edging unprepared toward retirement raises worrisome questions about the stability of the nation's retirement system.

How Well Are the Boomers Doing? Interpreting the Evidence

Only a few studies have examined how well the boomers are preparing for retirement. The Congressional Budget Office recently compared households aged 25–44 in 1989 (roughly the boomer cohort) with households the same age in 1962. Boomer households, it turned out, had more real income and a higher ratio of wealth to income than the earlier generation. Though this finding seems promising, in fact the CBO study implies that baby boomers are going to do well in retirement only if (i) the current generation of elderly is thought to be doing well, (ii) the retirement needs of the two generations are the same, (iii) the experience from middle age to retirement is the same for both, and (iv) boomers will be content to do as well in retirement as today's retirees. None of these is certain. For example, although today's elderly are generally thought to be doing well, some 18 percent were living below 125 percent of the poverty line in 1995. And the boomers' longer life expectancy means that they will need greater wealth for retirement.

Whether the boomers and the previous generation will have similar experiences from middle age to retirement is an open—and still evolving—question. The earlier generation benefited from the growth of Social Security and housing values in the 1970s. But the boomers have gained from the dramatic rise in the stock market since the early 1980s, from smaller household size, which reduces living expenses, and from higher employment rates for women, which will raise their pension coverage. In addition, boomers are more likely to be in white-collar work and so should expect earnings to peak later in life and be able to work longer if they wish.

Finally, boomers may not be content with the living standard of today's retirees. They may aim instead for retirement living standards more comparable to those of their own working years. For all these reasons, how to inter-pret CBO's finding is unclear, even if the finding itself is unambiguous.

The most comprehensive study of these issues was undertaken by Stanford's Douglas Bernheim in conjunction with Merrill Lynch. Bernheim developed an elaborate computer model that simulates households' optimal saving and consumption choices over time, as a function of family size, earnings patterns, age, Social Security, pensions, and other factors. He then compared households' actual saving with what the simulations indicated they should be saving. His primary finding, summarized in a "baby boomer retirement index," is that boomers are saving only about a third of what they need to maintain preretirement living standards in retirement.

The index has attracted much attention but is not well understood. It does not measure the adequacy of saving by the ratio of total retirement resources (Social Security, pensions, and other assets) to total retirement needs (the wealth necessary on the eve of retirement to maintain preretirement living standards). Instead, it examines the ratio of "other assets" to the part of total needs not covered by Social Security and pensions.

As a result, the index reveals little about the overall adequacy of retirement preparations (see table 1). In case A, a hypothetical household needs to accumulate 100 units of wealth. It is on course to generate 61 in Social Security, 30 in pensions, and 3 in other assets. Total retirement resources are projected to be 94 percent of what is needed to maintain living standards. But according to the boomer index, the household is saving only 33 percent of what it needs.

Thus, a baby boomer index standing at one-third does *not* imply that, absent changes in saving behavior, boomers' retirement living standards will be one-third their current living standard. It could mean that (as in case B), or it could mean retirement living standards will be 60 percent of current living standards (case C), or 94 percent (case A), or even over 99 percent (if Social Security and pensions were 99 and other saving were 0.33).

A second problem is that changes in the boomer index over time, or differences across groups, do not correspond to changes or differences in the adequacy of overall retirement saving. If, as in case D, the household in A rolls over its pension into an IRA, the boomer index soars, though total retirement resources are unchanged. If, as in case E, household A rolls over half of its pension into other assets and spends the rest on a vacation, the household has a higher boomer index, but less adequate total retirement preparation.

Finally, the boomer index can be extremely sensitive to estimates of retirement needs. In case F, retirement needs are 5 percent lower than in A, and the index rises from 33 percent to 75 percent. In case G, retirement needs are 7 percent lower than in A, and the index rises to 150 percent.

Bernheim points out that his model understates the retirement saving problem. The wealth measure, he notes, includes assets the household has earmarked for retirement as well as half of other (nonhousing) wealth. The model also assumes no cuts in future Social Security benefits, no increases in Social Security taxes, and no increase in life span.

But in other ways the model overstates the problem. It assumes that any man not covered by a pension at the time of the survey, when respondents are 35–45 years old, will never be covered, though pension coverage rates tend to rise a good bit as a worker ages. The model also likely understates pension benefits since it uses benefit data from the 1970s. Because the pension system grew rapidly from the 1940s to the 1970s, workers retiring in the 1970s likely had fewer years in the pension system and hence lower benefits than the boomers will upon retiring.

The model excludes all housing wealth and inheritances—no small matter, since, by Bernheim's calculation, including housing would raise the index to 70 percent, and a fair proportion of boomers is likely to receive substantial inheritances.

The model assumes that people will retire at age 65, though the normal Social Security retirement age will be 66 for most boomers, 67 for the youngest. The model also excludes all earnings after "retirement," though about 18 percent of the income of the elderly today is from working. And with partial retirement on the increase, retired boomers may work even more regardless of the adequacy of saving.

Finally, the model makes no allowance for retirees' lower work-related expenses or lower expenses for mortgages or other durable goods—such as furniture, appliances, and cars. Whether all these biases are larger or smaller than those in the opposite direction noted by Bernheim is unclear. Measuring and including these items is an important area for further research.

A New Perspective

Fundamental questions about retirement saving remain not only unanswered, but unasked. What proportion of households is saving adequately for retirement? What are the characteristics of those households? How has the proportion changed over time? Among those not saving enough, how big is the problem?

Table 2 begins to answer such questions by presenting my own estimates of the proportion of married households, with the husband working, who are "on track" toward accumulating enough wealth for retirement. The measure of "on track" is based on calculations in a study by Bernheim and John Karl Scholz, of the University of Wisconsin, that determines how much a household needs to have saved by a given age, given its earnings, prospective Social Security benefits, pension status, family size and other characteristics. (That study uses the Bernheim model described above, so the data suffer from all the biases already mentioned. Another bias here is that the sample includes only married couples where the husband works full time. Other married couples and singles are likely to be faring worse.)

When housing equity is not counted, slightly less than half of all households—and about the same share of all boomers—were saving

Table 1. Two Ways to Measure Adequacy of Retirement Saving

Units of wealth

Case	Social Security (1)	Pension (2)	Other assets (3)	Needs (4)	Total resources Index (%) [(1)+(2)+(3)]÷4	Boomer Index (%) (3)÷[(4)-(1)-(2)]
A	61	30	3	100	94	33
B	0	0	33	100	33	33
C	20	20	20	100	60	33
D	61	0	33	100	94	85
E	61	0	18	100	78	45
F	61	30	3	95	99	75
G	61	30	3	93	101	150

Table 2. Proportion of Married Households Saving Adequately for Retirement

Percent

	Year	Proportion Saving Adequately When: Net assets exclude housing equity	Net assets include half of housing equity	Net assets include all of housing equity
All households[a]				
	1983	44	66	76
	1986	53	71	78
	1989	43	63	72
	1992	47	61	70
Baby boomer households[b]				
	1989	48	67	73
	1992	48	63	71

Source: Author's calculations from the Survey of Consumer Finances.
[a] Husband is aged 25–64 and works at least 20 hours per week.
[b] Husband was born between 1946 and 1964 and works at least 20 hours a week.

adequately in 1992. When half (all) of housing equity is counted, the adequacy rate climbs to 61 percent (70 percent).

Adequacy rates rise with education and income. Within the baby boom generation, adequacy rates generally decline somewhat with age. They are higher for boomers with pensions than for those without, either because pensions raise households' overall wealth or because people more oriented toward saving and thinking about retirement are also more likely to have jobs with pensions.

High adequacy rates do not necessarily require high levels of saving. For example, suppose annual retirement needs are 75 percent of final earnings. According to the Social Security Administration, Social Security benefits replace about 46 percent of final earnings for the average worker earning $50,000 at retirement. (Note that in this example Social Security replaces 61 percent—46/75—of total retirement needs, as in case A in table 1. The percentage would be higher for workers with lower earnings.) With pensions typically replacing 25–30 percent of final earnings, a household with Social Security and a pension would not need much more saving to maintain adequate living standards, especially if the household can work for a time in retirement or expects to receive bequests.

As table 3 shows, the wealth shortfall among households that are not saving adequately (ignoring all housing equity) is relatively small for many. The median inadequate saver has a shortfall of $22,000, or about six months of earnings—a problem that could be solved either by postponing retirement for six months or by lowering retirement living standards a little. Even among 60–64 year olds, the median inadequate saver could completely resolve his or her saving shortfall by working for two more years past age 65.

Thus, the glass can be viewed as half full or half empty. When housing equity is ignored, the typical household seems to be barely saving adequately or just missing. When housing is included, over two-thirds of households appear to have more than the minimum needed, given their age and other factors. Roughly speaking, a third of the sample is doing well by any measure, a third is doing poorly by any measure, and the middle third is (or may be) just hanging in there. Both of the following statements are equally true. Up to two-thirds of the households are now saving at least as much as they should be. And two-thirds are "at risk" in that any deterioration in their situation could make it impossible for them to maintain their living standards in retirement.

In short, two key factors matter tremendously to any characterization of the problem: the heterogeneity of saving behavior across households and uncertainty concerning the right measures of wealth to use.

Areas of Uncertainty

The boomers' prospects are also complicated by uncertainty in other areas: retirement patterns, life spans, home values, asset markets, health care costs, and the economy itself.

Average age at retirement, which fell through the 20th century for men, may start rising regardless of the adequacy of

Table 3. Median Shortfall in Retirement Wealth[a]

Age	Shortfall: In dollars	In terms of annual earnings
25–29	2,960	0.12
30–34	3,400	0.10
35–39	13,180	0.37
40–44	26,940	0.73
45–49	33,500	0.82
50–54	65,100	1.25
55–59	51,800	1.47
60–64	75,470	2.17
All households	22,480	0.52
Baby boomer households	13,480	0.38

Source: Author's calculations based on the 1992 Survey of Consumer Finances.
[a] The sample is households not saving adequately for retirement when housing equity is not included.

saving. Many of today's jobs do not depend on "brawn" and can thus be done by older people. The normal Social Security retirement age will rise to 66 by 2009 and 67 by 2027 even if no further changes are made in Social Security.

Partial retirement may matter as well. Many retirees cut back on work gradually rather than abruptly. According to a study by economist Christopher Ruhm, only 36 percent of household heads retire immediately at the end of their career jobs. Nearly half remain in the labor force for at least five years. Of workers eligible for a pension, 47 percent continue to work after leaving their career job. If people continue to work even after retirement, they will be better able to support living standards in retirement.

A related uncertainty involves life span. Expected remaining life spans of 65 year-olds have grown in the past two decades and are projected to grow further. Living longer means having to stretch a given amount of money over a longer period.

Roughly speaking, a third of the boomers are doing quite well, a third are doing poorly, and the middle is just hanging in there.

Uncertainty regarding home equity is twofold. First, how will housing prices evolve? Both demographic pressures and the reduction in tax rates in the 1980s may reduce the long-term value of housing. And, second, regardless of housing values, to what extent should housing be counted as part of household wealth? In recent decades, the elderly have been reluctant to cash in their housing equity. But baby boomers have been willing to extract housing equity and were major recipients of home equity lending booms in the 1980s and 1990s. It remains to be seen whether the boomers in retirement will act more like themselves in earlier years or like current retirees. In any case, a household with low financial assets that lives in a $300,000 house and refuses to dip into housing equity may not be considered a pressing social concern.

Asset markets too are uncertain. Equity values cannot continue to grow as rapidly as they did in 1996. And even if the boomers accumulate what seem to be sufficient retirement funds, they will, loosely speaking, all want to cash in those funds at roughly the same time. That could mean massive sell-offs of stocks and bonds that could depress asset prices. Conceivably asset prices could fall sharply, but since markets are forward looking, asset prices may instead be stagnant for a long period. Finally, the evolution of health care costs and of the economy as a whole could have a major impact on the adequacy of retirement preparations.

What's in Store?

The retirement prospects for the baby boomers are uncertain. One issue is what policymakers and boomers themselves will accept as a reasonable goal for retirement living. More thought needs to be given as to how to assess living standards when, as a matter of biology, retirees face declining health. In addition, they typically have more leisure time and can literally substitute time for money.

A second source of uncertainty is the boomers themselves. Whatever imponderables the economy as a whole may offer, baby boomers can improve their retirement prospects by saving more—that is, by reducing their current living standards.

What can government do? First, keep the fiscal house in order by reducing the long-term budget deficit in ways that do not reduce private saving. Second, the government could provide, or encourage others to provide, financial education to workers and households on how much they need to save. Third, the government should encourage people to use the many saving incentives already in place. Fourth, judicious Social Security and pension reform, especially pension reform that raises pension coverage, could help resolve these problems and raise private saving at the same time. ■

Beyond 2002

Preparing for the Baby Boomers

BY ROBERT D. REISCHAUER

panels of providers and some management of care. Medicare remains largely an unmanaged indemnity insurance program paying discounted prices to virtually any licensed provider who chooses to participate. The two systems require different institutional infrastructures to support them, and as they continue to diverge, unnecessary complexity and inefficiencies will develop.

Medicare's glaring inadequacies represent a third, and probably the most compelling, reason for fundamental reform. The standard benefit package offered through employer-sponsored insurance, other public programs, and even many individual policies is far more generous than that of fee-for-service Medicare. Medicare does not cover most outpatient prescription drugs, has no catastrophic protection, and covers few preventive services. As a result, about 70 percent of participants supplement Medicare with employer-sponsored retiree wrap-around policies or individual Medigap insurance. To protect low-income Medicare participants without such policies from large out-of-pocket costs, the government has created a Medicaid safety net. But the safety net is inefficient, inequitable, and inadequate. It saddles states with a cost that should be borne in Washington and does little for many whose incomes are above its eligibility thresholds but too modest to bear, without severe strain, the costs of the services that Medicare covers only partially or not at all.

The problems faced by low- and moderate-income participants are likely to get worse unless Medicare is reformed fundamentally. Employers will continue to pare back or drop their supplementary policies for retired workers. Medigap premiums will grow rapidly as Medicare HMOs draw healthier-than-average participants out of the Medigap insurance pool. Pressure will mount to extend the safety net to more low- and moderate-income participants, thus making the system of protection for the elderly and disabled even more complex and inefficient. And until Medicare is restructured, its inadequate benefit package will be hard to improve.

What Are the Options?

Academics, policy analysts, and policymakers have proposed numerous approaches for restructuring Medicare that they believe can both enhance the protection it provides and save public resources. All would impose a tighter budget constraint on Medicare spending. They differ, however, as to how strong that constraint would be and how it would be enforced.

One approach would privatize Medicare by requiring workers to contribute a fraction of their earnings to special tax-advantaged accounts that they would use to buy health insurance when they retire. The retiree insurance market would be regulated to assure that policies were available, affordable, and renewable. Advocates argue that contributions to the special accounts could be lower than the payroll tax needed to support the existing Medicare program—or that the benefits could be more generous—because the money in the accounts would earn a high return. They also believe that people would purchase insurance prudently, buying neither too much nor too little, because they would be spending their own money.

A privatized system, however, would pose real risk for those with low earnings or long life spans whose accounts could not buy adequate insurance. Conceivably, an entire age cohort could find itself at risk if, shortly before it retired, expensive new med-

What Is Medicare?

Medicare, the nation's health insurance program for the elderly and disabled, has two components. Hospital Insurance covers inpatient hospital, skilled nursing, home health, and hospice services. It is financed from a trust fund whose income derives largely from payroll taxes paid by all workers and their employers. Supplementary Medical Insurance, or Part B, covers outpatient hospital, physician, laboratory, and other services. Roughly three-quarters of its costs are borne by general revenues, with the balance coming from premiums paid by participants. About one-eighth of Medicare participants choose to obtain their health care services through approved HMOs rather than through the traditional fee-for-service system.

ical technologies were developed, inflation jumped unexpectedly, or the value of the financial assets held by the accounts dropped sharply. If Medicare were privatized, it would cease to be a federal budget problem, but public spending on health-related safety net programs would probably have to be expanded.

A second possibility would be to convert Medicare into catastrophic insurance. The deductible could be set high—say, $2,500 a year. The benefit package could be expanded to include services, such as outpatient drugs, that could count toward the deductible. Advocates argue that this approach would hold down costs because people would try to economize on medical spending below the deductible. Above that amount, where much of health spending takes place, risk would be borne by the catastrophic plan, and neither participants nor providers would have any incentive to economize. Many participants would want to buy supplementary policies to cover the catastrophic plan's deductible as well as certain uncovered services. If supplementary policies were permitted, they would emasculate the demand-reducing impact of the high deductible just as Medigap-type policies now undermine the restraining effect of Medicare cost-sharing. Without supplementary insurance, more of the costs of medical care would be borne by the sick and less by the healthy.

A third option is to transform Medicare into a defined-contribution program and give each participant a fixed amount with which to buy coverage from an approved plan operating in a regulated market. These payments, which could be given to the participant as a voucher or paid directly to the plan he or she chooses, would be risk-adjusted and might vary to reflect geographic cost differences as well. There would be no mandated benefit package, and plans whose costs exceeded the federal payment level would be free to charge supplementary premiums. If the plan's costs were less than the federal payment, the participant would receive a full or partial rebate. An accurate mechanism to risk-adjust Medicare's payments to plans, which does not now exist, would be crucial because without a common benefit package disproportionate numbers of relatively healthy participants may choose plans with limited benefits and, therefore, low premiums.

Under a defined-contribution system, the government would have an enforceable budget constraint because it would set the payment levels. Advocates believe that costs would be held down by competition between plans and by participants' strong incentive to join plans that provide quality services at reasonable prices. If health care costs grew faster than Medicare's payments per beneficiary, participants would ultimately be hit by a diminished quality of care, reduced services, or increased supplementary premiums.

Premium support, a fourth approach, resembles the defined-contribution option except that all plans would have to provide the same core benefit package, which would be more comprehensive than that now provided by Medicare. A common benefit package would make it easier for participants to compare plans and for the government to risk-adjust its payments to the plans. Medicare could set payments to the plans through competitive bidding, an option unavailable in the defined-contribution system, which has no common product. The payment in each market area could be set at the median bid. As long as the premium support amount was at least as large as the median bid, low-income participants would have a reasonable choice of plans. At first, only plans willing to accept the premium support amount as full payment could participate. Over time, this rule could be relaxed and plans with higher bids could be allowed to charge supplemental premiums for the basic benefit package, unless the practice badly divided participants by income or health status.

Under both the defined-contribution and premium support systems, a range of plan types—HMOs, preferred provider organizations, provider-sponsored organizations, and fee-for-service insurance—would be available, and the traditional fee-for-service Medicare option would be phased out.

Although no one in the Medicare debate has suggested such an approach, Medicare could also be nationalized—transformed into a National Health Service for the elderly and disabled. Medicare could contract with a limited number of private providers for needed services or employ its own providers, as the Veterans Administration does. Such a system could offer more complete coverage than Medicare does now. The budget constraint could be as strong as it is with the Veterans Administration system.

The alternative to fundamental restructuring is incremental reform. It would hold down federal costs by raising Part B premiums, restraining the growth of payments to providers, and increasing costs to participants through higher deductibles and increased coinsurance rates. Those latter costs, however, would be picked up by supplemental insurance, whose premiums would go up, thus raising costs to participants indirectly. A more straightforward and efficient approach would be simply to raise Medicare premiums. Incremental proposals would also reduce payments to Medicare HMOs—now set at 95 percent of the cost of fee-for-service Medicare. Incremental reform would leave unchanged the basic structure of the existing system—as well as all its problems. Some of the system's perceived advantages, such as the freedom to select one's own providers and to access any available procedure, may erode as payments to hospitals and physicians are continually ratcheted down.

Choosing among the Options

Political feasibility pretty clearly rules out the extremes—both pure privatization and nationalization. Catastrophic coverage would also be a tough sell because the vast majority of elderly seem to prefer health insurance that covers the cost of even routine, budgetable care. The incremental approach undoubtedly is the most politically feasible option now. But as time passes, workers and their dependents, whose taxes pay for most of Medicare's costs, may begin to wonder why Medicare participants continue to have expensive unrestrained access to providers and services when their own employer-sponsored coverage restricts their choice of providers and their access to certain expensive procedures. If a premium support system made

Medicare more like employer-sponsored insurance with respect to both limits and benefit adequacy, political support for it might grow.

Of all the alternatives, the premium support approach probably holds the most promise for restraining costs because it would both encourage competition among plans and use the most decentralized mechanism—competitive bidding by plans—to set the government's contributions to the plans. Both the premium support and defined-contribution approaches would be better than the incremental approach at weeding out unscrupulous providers and providing care most efficiently because, in both, the tough decisions would be made by health plans responding to market forces rather than government administrators whose flexibility would be curbed by political considerations.

A system of premium supports also holds the most promise for improving Medicare's benefit package. The package established through the political process would no doubt be similar to those of employer-sponsored plans. Because the defined-contribution approach has no set benefit package, its average benefit package could gradually deteriorate as plans competed with one another for participants. Cost considerations would continue to make benefit expansion problematic under the incremental approach.

70% of participants supplement Medicare with employer-sponsored retiree policies or Medigap insurance.

When Should Structural Reform Begin?

The sooner the nation begins restructuring Medicare, the more options policymakers will have and the less wrenching the changes will be. Conditions for restructuring are favorable on a number of fronts.

The economy is strong and can accommodate relatively painlessly the unavoidable dislocations arising from a major program restructuring. Demographic conditions are also favorable. The next decade will see a lull before the demographic storm breaks as the first of the baby boom generation turns 65 in 2011. The population aged 65 and over is projected to grow only 0.9 percent a year during the next decade—less than it did during the previous decade and much less than it will in the decade after 2007. This will give any new institutional structures created as part of Medicare reform time to become established before the boomers begin to turn 65.

Health market conditions too are conducive for Medicare restructuring. Providers, particularly hospitals and physicians, are in excess supply. As employer-sponsored plans have constrained their payments to providers, Medicare payments have become relatively generous. Medicare hospital margins—estimated at 12.7 percent for 1997—are higher than they have been in over a decade. Introducing structural reforms while market conditions are good will be unlikely, even with the inevitable slips and stumbles, to restrict access or compromise the quality of care received by Medicare participants.

Even political conditions are relatively favorable. The president is a lam duck. While he may be concerned about what Medicar reform may do to the fortunes of his party, he does not have t worry about his own reelection. In 2001, a new president wi be facing reelection in 2004, when about 45 percent of th voters will be 50 and older. With Congress controlled by th Republicans and the White House in Democratic hands, an reform legislation enacted now will bear the fingerprints c both political parties. That won't make reaching an agreemer any easier, but it does reduce the chances of demagoguery o the issue in the next election or of policy reversal if one part should control both Congress and the White House.

If restructuring were to start i 1997, how fast should it proceed Prudence is a virtue in deal ing with a program as vit to millions of vulner able people a Medicare, but th pace preferred b the Clinton ad ministration risl paralysis. The Health Care Financing Administration (HCFA wants to demonstrate, test, and evaluate reform alternatives. Bu the answers to many of the important questions that HCFA examining will never be clear from experiments and demonstra tions that are not systemwide. Opponents of change will use th ambiguity of the results to forestall reforms. Current Medicar providers and participants will have reason to dig in their hee because one of the chief forces driving restructuring is the nee to reduce the spending from which both benefit.

When the Republican majority in the 104th Congre passed the Balanced Budget Act of 1995, it showed a willin ness to move rapidly on fundamental Medicare restructurin It erred, however, in rigidly specifying the details of the futu program and implementing them over a short seven-year per od. No one yet knows just how far restructuring might go i the employer-sponsored health insurance market. It is precip tous to lock in place now a new structure for Medicare for tl next century. Restructuring must be an evolutionary, not revolutionary process.

But if the nation wants to restructure Medicare in ways th can benefit both participants and taxpayers, the process mu begin soon and must proceed at a deliberate pace. Medica restructuring will be complicated, divisive, and time consun ing. New institutional infrastructures will have to be built, tes ed, and revised. Plans, providers, and participants will have get used to the new structures and incentives. As the proc unfolds, some mid-course corrections and adjustments will r doubt be necessary. But such uncertainties should not be us as an excuse for inaction. If meaningful Medicare reforms a not started before this century comes to a close, the window opportunity may slam shut and the nation may be faced wi few alternatives other than to raise taxes to support increasin ly inadequate Medicare benefits.

BUDGET
POPULATION AGING

BY BARRY BOSWORTH AND GARY BURTLESS

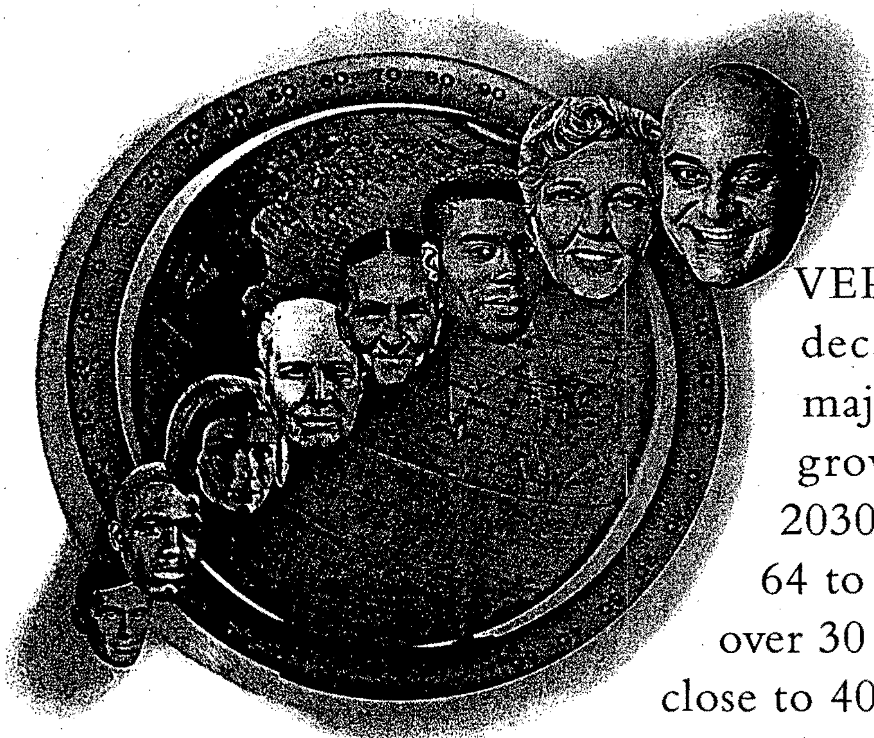


ILLUSTRATION BY GLENN PIERCE
PHOTOS COURTESY OF
H. ARMSTRONG ROBERTS

OVER THE NEXT SEVERAL decades the populations of the major industrial countries will grow considerably grayer. By 2030 the ratio of people past age 64 to those ages 15-64 will be just over 30 percent in the United States, close to 40 percent in France and Great Britain, and nearly 50 percent in Germany and Japan. The increased cost of retirement benefits will put enormous pressure on public sector budgets at a time when the workforce is scarcely growing or even shrinking. But though all the big industrial countries share the prospect of an aging population, no two face exactly the same future. Variations in the size and timing of the demographic changes, as well as important differences in public programs for the elderly, mean that population aging has different implications in each country.

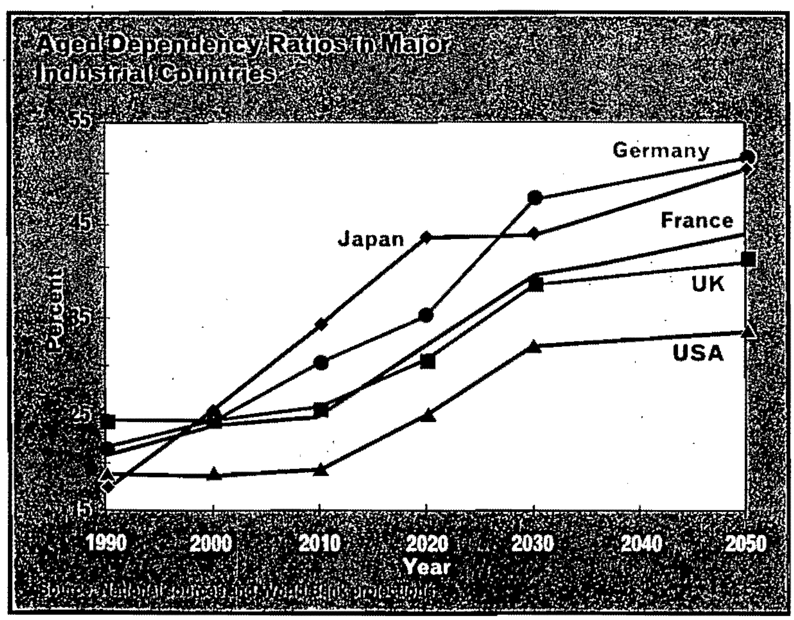
CRUNCH IN RICH COUNTRIES

Demography. Over the next several decades, the aged dependency rate—the ratio of people over age 64 to those of working age—will rise most steeply in Germany and Japan. Not only will the aged population increase, but the working-age population will fall (see figure). Indeed, the economic issues of population aging will be compounded by the possibility of actual population decline. Fertility rates in both Germany and Japan are far below the "replacement rate" needed to maintain a constant population, now about 2.1 children per woman. Official projections assume the fertility rate will gradually return to the replacement rate in Japan, but remain close to the current level (1.4) in Germany. German forecasts also assume substantial (but declining) immigration, an annual net flow of about 2 immigrants per 1,000 residents, compared with 5.6 earlier this decade. Immigration is assumed to be negligible for Japan.

France and the United Kingdom face less dramatic population change. Although fertility rates in both have declined (to 1.8), over the next quarter century the total populations of France and Britain are expected to grow, while the working-age populations remain roughly unchanged. Dependency rates will rise because of the growing number of the elderly.

Barry Bosworth and Gary Burtless are senior fellows in the Brookings Economic Studies program.

Though the aged population is projected to grow fastest in the United States, the U.S. aged dependency rate will grow the least. The U.S. fertility rate is now above 2.0, and immigration remains strong (4.4 per thousand residents), so the working-age population will continue to grow, although much more slowly than in the past.



Aged Dependency Ratios in Major Industrial Countries

Official forecasts in all five countries suggest life expectancy improvements will slow. In Japan, for example, life expectancy is predicted to improve over the next 30 years at one-sixth the rate of the past 30. In the United States, it is predicted to rise at half the rate of the recent past. Germany projects no gains in life expectancy. Many demographers believe these projections understate likely improvements in longevity, implying an even greater rise in the aged dependency rate.

Pension Burdens. France, Germany, Japan, the United Kingdom, and the United States have all tried to improve the lot of their aged citizens over the past half century. By liberalizing public pensions and health insurance, all have sought to provide the elderly a living standard comparable to that enjoyed by the working-age population. By the mid-1980s, they had largely achieved their goal. Poverty had fallen sharply among the elderly, and living standards of typical aged and non-aged households had substantially converged.

The five countries differ widely in their spending on public pensions, however. Pension costs as a share of GDP are much higher in France and Germany than in Japan, Britain, or the United States (line 1, table 1). Not only do France and Germany provide more generous pension benefits (line 2), they also use public pensions to finance early retirement for the long-term unemployed, a practice that has depressed employment rates among people in their late 50s and early 60s.

Public pension costs are less burdensome in Japan, Britain, and the United States, in part because pensions are less generous, but also (in the case of Japan and the United States) because the populations are younger. The United States spends the smallest portion of GDP on public pensions. Its aged dependency ratio is the lowest, and its public pensions are, along with those in Britain, the least generous.

Each country's public pension system is distinctive (see box, pages 14-15). In France, Germany, and Japan, population aging and the generosity of the pension formula mean that public pension costs must rise rapidly. Reforms in the U.S. system in 1977 and 1983 will hold down spending increases. The normal retirement age, for example, will rise gradually starting early in the next century, reaching 66 for people born in 1943 and 67 for people born in 1960. That reform essentially reduces future pensions 12-14 percent. On the other hand, steep increases in the cost of Medicare will send U.S. spending on the elderly soaring in spite of only moderate growth in public pension costs. Britain took major steps during the 1980s to scale back public pension spending. The Conservative government cut future public pension commitments and offered financial incentives for workers to opt out of part of the public system.

The projected costs of public pension programs vary widely (line 3). France, Germany, and Japan are expected to encounter severe financing problems within the next few decades. In all three countries, estimated unfunded liabilities of the public systems exceed current GDP (line 4). The unfunded liability of the U.S. system is one quarter of GDP. Britain's net liability is near zero.

> Declining labor force growth and the dramatic slowdown in labor productivity growth have eliminated the advantages of a pay-as-you-go system.

Reform. To restore long-term solvency to public pensions, policymakers confront a choice among four reform alternatives. Three—cutting benefits, increasing contribution rates, or raising the age of retirement—can be implemented within the present pay-as-you-go framework. The fourth moves away from pay-as-you-go toward advance funding of retirement obligations—either within the public system or in privately owned and managed pension funds.

Benefit cuts. Public systems are now the main source of income for most retirees, providing over 40 percent of total retirement income in the United States and up to 70 percent in Germany. Because many old people have fairly modest incomes (often just above the poverty line), most countries cannot reduce minimum pensions without increasing poverty. Many proposals for scaling back benefits therefore emphasize means-testing or modifying the inflation index.

Moving from an earnings-related to a flat-rate benefit could reduce public pension costs, but it introduces important incentive problems. Severing the link between a worker's earnings (and tax contributions) and his or her retirement pension discourages work and encourages tax evasion. It will be opposed by high-wage workers, who would pay a tax proportional to their earnings but receive only a minimum, flat-rate pension. To keep the contribution rate down in a reformed system, these workers woul almost certainly press their politica representatives to keep the basic pension low, putting man old people at greater risk of becoming poor.

Means-testing public pensions on the basis of retirees' current income can also lower costs. But it would discourage private pensions and saving, which might, perversely, make middle-income workers more reliant on public pensions.

Benefits can also be trimmed by reducing the inflatio adjustment. To justify that step, some observers argue that non medical consumption needs decline with age. In the Unite States some also claim that the consumer price index overstate increases in the cost of living. But reducing the annual inflatio adjustment would progressively reduce the real benefits of agin retirees as they grow older. Because most other retiremen income is not indexed, this would exacerbate a pattern in whicl retirees' real income declines with age—and poverty rates rise.

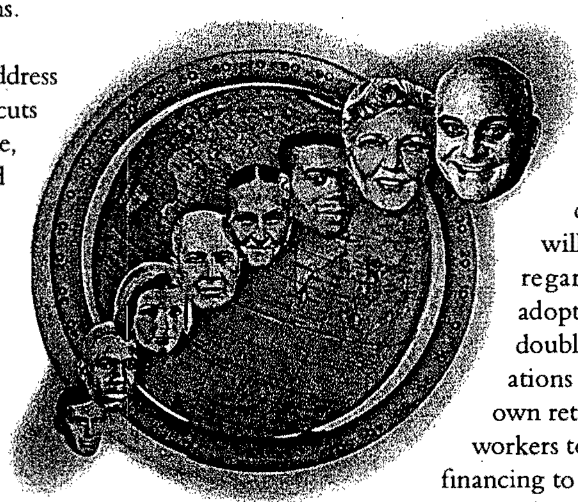
Higher contributions. Raising contribution rates is a second option. But ta rates are already so high in many countries that raising them further would b very unpopular and, possibly, counterproductive. Often, though, the high tax rate apply to a tax base that is far less than 100 percent o total labor compensation. Wages are taxe only up to a certain limit. Fringe benefits ar usually not taxed. (In fact, the gradual shi from taxable wages to untaxed benefit accounts for more than a third of the long term U.S. retirement fund deficit.) Broadening the tax bas could obviously close some of that gap. But some of the extr revenue would be offset by higher pension payments to workers credited with higher average wages. And many fring benefits, such as health insurance, are hard to value, making i hard to calculate a worker's pension contributions.

Raising immigration or the birth rate could also add contributors and revenue to the public system. But immigration i unpopular in Europe, in part because of high joblessness, and i has become much less popular in the United States in the pas decade. Large-scale immigration has never been permitted i Japan. Germany now offers major incentives for childbearing but it is hard to see any effect on the birth rate. And childbearing incentives may encourage women to stop working, partially offsetting the benefits of a higher birth rate.

Delaying retirement. Increasing the retirement age is anothe way to reduce pension costs. Although expected longevity a age 60 has increased about one-fifth since 1960, the earlie age for claiming pensions has been left unchanged or eve reduced in the five big industrialized countries. German Japan, and the United States plan to raise the age of entitlement for a full pension, but much less than the longevit increase over the past few decades. Because workers in mo countries prefer to retire before the "normal" retirement ag raising the age of entitlement for full benefits without raisin the early retirement age amounts to reducing benefits.

Increasing the retirement age can certainly cut costs. The United States could erase its 75-year Social Security deficit by raising the retirement age to 67 today, increasing it gradually to 70 in 2030, and raising the early retirement age from 62 to 67. Delaying retirement is widely unpopular, however, especially among workers with physically demanding jobs. The evidence of the past few decades suggests, in fact, that most workers strongly prefer earlier retirement options.

Advance Funding. Proposals to address the financing problem through benefit cuts and tax increases are inherently divisive, because they force generations and income classes to vie over who will have to make the larger sacrifice.



It is possible to mitigate these divisions by increasing the national income that will finance the consumption needs of future workers and retirees alike. To achieve this, the current generation can increase its saving to finance more of its own retirement. Larger accumulations in retirement systems, whether public or private, over the coming decades would raise the nation's capital stock and raise national output. In the next century, the nation would be spending more on pension programs, but paying for it out of a larger economic pie, leaving a bigger slice of the pie for future workers.

The current pay-as-you-go system of financing public pensions does not increase national saving. In all the national systems under discussion here, payroll taxes from today's workers go almost entirely to pay for pensions for today's retirees. During the 1950s and 1960s, pay-as-you-go looked like a good idea. The labor force was growing briskly, and real wages were climbing 2-5 percent a year. The return on contributions once the system was mature was expected to be 4-7 percent a year, far more than ordinary workers could earn on their own savings.

Declining labor force growth and the dramatic slowdown in labor productivity growth have eliminated those advantages of a pay-as-you-go system. The rate of return has fallen below 2 percent a year in most countries and may soon become negative. Private investment alternatives offer workers and pension fund managers real returns exceeding 3 percent a year. In view of the difference in expected rates of return, many of today's workers and young voters would choose prefunded retirement accounts over pay-as-you-go.

Unfortunately, the pay-as-you-go system has inescapable consequences. Governments have accumulated huge pension liabilities to retirees and older workers. Democracies are unlikely to default on these obligations. Over the next several decades, current and future workers will pay for the promised pensions, regardless of whether governments adopt new advance-funded systems. The double burden of paying off those obligations and saving in advance for their own retirement makes it costly for younger workers to move cleanly from pay-as-you-go financing to advance funding.

Nonetheless, today's workers could increase the portion of retirement income they expect to derive from capital income and reduce the portion coming from payroll contributions of future workers. Governments could move toward partial funding of future retirement obligations either by modifying current public systems or by converting them fully or partially to private systems. In either case the central

Table 1. Public Spending on Pensions, 1995–2040

	France	Germany	Japan	United Kingdom	United States
1. Public pension costs–1995 (Percent of GDP)	10.6	11.1	8.6	6.5	5.1
2. Net replacement* (Percent)	78	63	55	50	50
3. Pension cost projections (Percent of GDP)					
2000	12	11	11	6	5
2010	13	12	14	6	5
2020	15	13	15	6	6
2030	17	14	16	6	7
2040	20	14	n.a.	6	7
4. Present value of net pension liabilities (Percent of GDP)	115	110	105	5	25

* After-tax value of public pension as a percent of after-tax wage while at work for average-wage worker.
n.a. Not available.

question is whether the increment to funding would really add to national saving and capital formation and boost future national income or whether it would be offset by reduced public or private saving elsewhere.

Advanced funding is simplest to implement within existing public programs because it would leave accrued benefit claims intact. Increased contribution rates or reduced benefits (or both) would create a reserve, which should be strictly separated from other government accounts. The reserve would then be invested in either public or private securities. From the point of view of economywide gains, it matters little which. If the public pension fund purchased government debt, more private saving would go to finance private investment. If the public fund invested in private debt or equities, private savers would be forced to purchase more government debt.

Public management of a huge retirement fund, however, raises thorny political issues. Politics might skew investment decisions. Even worse, public officials might use reserve accumulations to offset deficits in other government accounts.

Private retirement accounts can reduce these political risks. In addition, they offer workers flexibility in managing their own retirement savings. Partial privatization, as in the two-tier system adopted by Chile in the early 1980s, is a possibility. A first-tier public program could provide a flat benefit or one related to the number of years of participation; the second-tier program could support a private defined-contribution pension program, with individual accounts invested in a range of capital market assets by the individual contributors.

But privatization too carries risks. Explicitly separating out the redistributional component could create strong pressure to reduce or eliminate it. A two-tier partially privatized system may not provide adequate income security for retirees with low lifetime earnings. Workers may make bad investment decisions. Converting individual accounts into annuities when workers retire or become disabled presents a huge challenge. Solving this and other problems entails high administrative costs that may eat into the returns of small accounts.

Individual retirement accounts have obvious appeal to high-wage workers, especially those with investment expertise. Setting up millions of IRAs—effectively, defined-contribution pension plans—eliminates concerns about the public costs of retirement programs. Benefits are determined by contributions and market interest rates, not by government contributions. But if millions of workers suffer losses on their investments, democratically elected governments may face enormous pressure to compensate them.

Five Public Pension Systems

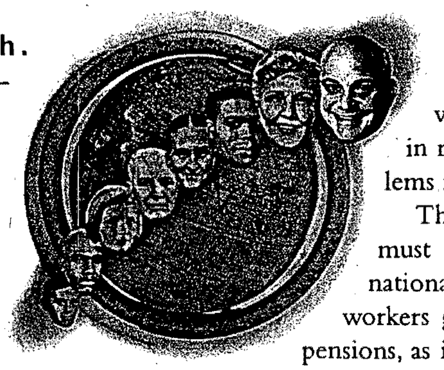
FRANCE. The French pension system consists of several hundred pay-as-you-go plans. The biggest, the "regime general," offers an initial benefit of 50 percent of a worker's average wage over the 10 highest-earning years, but with earnings each year truncated at the social insurance ceiling. (For workers retiring in the next century, the average wage will reflect earnings in the 25 highest-earning years.) The pension, which is indexed to prices, is available to workers retiring at age 60 who have contributed to the system for at least 40 years. Workers who contribute for fewer years get a reduced pension. Most recipients of the basic pension also get benefits from supplementary schemes in which pensions are proportional to past contributions. This two-tier structure covers about two-thirds of the work force. Small regimes with specific rules also apply to various socioeconomic groups. Pensions are financed with payroll taxes on pensionable earnings plus a small proportional tax on total income.

GERMANY. In Germany's pay-as-you-go pension scheme, the basic benefit is based on the number of years of contribution and a worker's relative wage each year. A worker earning the average wage each year for 45 years of contribution receives a pension of 70 percent of the average net wage at retirement. Workers who steadily earn less than half the average wage receive a small extra benefit. Benefits are indexed to reflect annual changes in the economywide average net wage (the gross wage minus income taxes and social insurance contributions). The retirement age, 63 for men and 60 for women, will rise to 65 early in the next century. Early retirement pensions starting at age 60 are widely used as a substitute for unemployment compensation. Benefits are financed with some general revenues but mainly with a proportional wage tax on earnings up to a maximum taxable level.

JAPAN. The Japanese public pension has two components: a flat-rate basic benefit and an earnings-related pension. The first-tier benefit is available to all residents. In 1995 the maximum monthly benefit for a 65-year-old worker who had contributed for 40 years was 65,000 yen (about $360 in terms of equivalent purchasing power). The average benefit was 45,000 yen ($250), about 12 percent of the average wage. Benefits are adjusted over time in line with consumer price inflation. If real wages rise, the benefit falls relative to the economywide average wage. The first-tier benefit is financed by a flat tax (12,300 yen a month) on each insured person plus a general tax subsidy.

The second-tier, or earnings-related, pension is available only to employees. Firms that offer an equivalent private pension can opt out of this part of the public system. Benefits are paid beginning at age 60 at

The Key: Economic Growth. Public programs for the elderly already consume a large and growing portion of public expenditures. For France, Germany, Japan, and the United States, the percentage of public budgets targeted on the elderly will rise sharply in the coming decades unless current laws are changed.



Britain is the exception to this general pattern. Recent policies have curbed the future growth of public spending on first-tier public pensions and encouraged workers to opt out of the second-tier public fund. As a result, future U.K. retirement incomes will depend increasingly on returns earned in privately managed and invested pension funds.

If all goes as planned, Britain will accumulate substantial reserves in its (increasingly private) pension system. If the budget deficit is kept low, those growing accumulations can help boost national saving, which in turn can spur economic growth. But there is a risk. Workers who invest their retirement funds badly may have to retire on pensions substantially lower than their preretirement incomes. A lengthy period of low or negative private market returns may leave an entire cohort of workers facing the prospect of low retirement incomes. This shortfall may be more than a problem for the unfortunate workers. If voters demand good incomes for workers in retirement, it might also create huge problems for the public budget.

The United Kingdom, like other countries, must support its retired population out of the national income available to it. Whether retired workers get most of their income through public pensions, as in Germany, or private pensions, as in the U.K., their consumption will be derived from the output of future workers and the future capital stock. If future productivity grows rapidly, the elderly can be generously supported while workers enjoy steady increases in their after-tax incomes. If productivity grows slowly, future workers will have to accept lower after-tax incomes or retirees smaller pensions unless workers can be persuaded to delay their retirement. The implications of slow growth will be the same whether pension incomes come from public or private sources. One way to increase economic growth is to accumulate larger pension fund reserves to boost national saving. Whether the reserves are accumulated in a public or private fund, they can contribute to future national income only if they yield an increase in overall saving. ■

the rate of 0.75 percent of the average wage per year of contribution. A worker with 40 years of service would get a second-tier pension equal to 30 percent of the lifetime wage. In computing the initial benefit, past earnings are adjusted for wage inflation. Later benefits are adjusted to reflect price inflation. The second-tier program pays the first-tier pension for workers who retire before age 65. Thus, most workers can retire at 60 and get a full pension. Early in the next century, however, the first-tier pension will be limited to those 65 and over. The second-tier pension is financed by a premium proportionate to the after-tax wage.

UNITED KINGDOM. The UK has a two-tier pension system. The second-tier, earnings-related pension is small, however, and firms and workers can opt out of it into privately managed programs. The retirement age is 65 for men and is being increased from 60 for women. The basic benefit has fallen to about 18 percent of the average wage. The second-tier pension pays 1.25 percent of average real covered wages for each year of contribution up to 20. A worker with 20 years of contributions receives a combined pension that replaces about 43 percent of average earnings. Recent legislation will scale back the second-tier public pension by about 20 percent. Over time, benefits will fall even further relative to the average wage because the basic benefit and the upper limit for defining covered wages both rise in line with prices rather than average wages. More than two-thirds of employees have already opted out of the second-tier program. In effect, Britain is gradually reducing the scope of its public pension system, though retirees will receive increased pensions under private programs. As a result, Britain does not face the financing problem for public pensions that confronts other industrialized countries.

UNITED STATES. The United States operates a single unified plan for self-employed workers and all private-sector and most public-sector employees. Its system, a pay-as-you-go defined-benefit plan, covers about 97 percent of the work force. The initial benefit is linked to a worker's average real wage in the 35 highest-paid working years. Past earnings are indexed to reflect wage inflation. Benefits are adjusted each year to reflect changes in the consumer price index. The benefit formula provides proportionately higher benefits for workers with low lifetime earnings. Benefits are financed with a proportional payroll tax on wages and net self-employment income up to a maximum annual amount ($65,400 in 1997).

An American worker who earns the economywide average wage each year will receive a retirement benefit at age 65 of about 43 percent of his or her real final wage. Because wages are more heavily taxed than public pension benefits, the net replacement rate is about 50 percent. Benefits for a dependent spouse equal half the breadwinner's pension. A typical benefit for a married couple with only one earner is 64 percent of the worker's pre-tax wage. The gross replacement rate is much lower when the married couple has two earners. The age of entitlement for a full pension is 65, though workers can claim a reduced pension as early as age 62. A 1983 reform will gradually raise the normal retirement age to 67. The early retirement age will not change.

COMPARISON OF MEDICARE BABY BOOMER COMMISSION BILLS

BILL	Number of Members	Distribution of Members	Selection of Leadership	Start Date	End Date	Specific Considerations	Scored By	Outside Experts
Ways & Means	15	6 Senate (not more than 4 from one party) 6 House (not more than 4 from one party) 3 ex officio members (cabinet level officials)	Chair & vice-chair of different parties and appointed by different methods are selected by the commission at the first meeting.	Feb. 1998	May 1, 1999 Provision to set up a permanent Independent Commission on Medicare. *	- amount & sources of funds - other nations' programs - age eligibility changes - trends in employee-related health care (MSAs, etc.)	CBO	Advisory Panel of health care experts, consumers, providers. Studies by GAO and other agencies as necessary.
Commerce	15	Same as above	Same as above	Same	May 1, 1999	Same as above <u>plus</u> - needs of the chronically ill	CBO	Same
Roth/ Moynihan	15	Same as above	The Speaker of the House, in consultation with the Senate Majority Leader, chooses the chair.	Same	One year after passage of act.	None given.	None given.	Comptroller General Studies by other executive and legislative agencies Library of Congress information

* The English Amendment directs the Commission to study the feasibility and desirability of establishing an Independent Commission on Medicare that would make annual recommendations on how to best match the structure of the Medicare program to available funding for the program (including a default mechanism enforcing spending targets if Congress fails to approve such targets). The Commission will report back with its recommendations for this permanent Independent Commission one year after passage of the Act.

Ways + Means

Clues

Amendment

TIONS.—In making its recommendations, the Commission shall consider the following:

June 8, 1997

(A) The amount and sources of Federal funds to finance the medicare program, including the potential use of innovative financing methods.

(B) Methods used by other nations to respond to comparable demographic patterns in eligibility for health care benefits for elderly and disabled individuals.

(C) Modifying age-based eligibility to correspond to changes in age-based eligibility under the OASDI program.

(D) Trends in employment-related health care for retirees, including the use of medical savings accounts and similar financing devices.

(c) MEMBERSHIP.—

(1) APPOINTMENT.—The Commission shall be composed of 15 voting members as follows:

(A) The Majority Leader of the Senate shall appoint, after consultation with the minority leader of the Senate, 6 members, of whom not more than 4 may be of the same political party.

(B) The Speaker of the House of Representatives shall appoint, after consultation with the minority leader of the House of Representatives, 6 members, of whom not more than 4 may be of the same political party.

(C) The 3 ex officio members of the Board of Trustees of the Federal Hospital Insurance Trust Fund and of the Federal Supplementary Medical Insurance Trust Fund who are Cabinet level officials.

(2) CHAIRMAN AND VICE CHAIRMAN.—As the first item of business at the Commission's first meeting (described in paragraph (5)(B)), the Commission shall elect a Chairman and Vice Chairman from among its members. The individuals elected as Chairman and Vice Chairman may not be of the same political party and may not have been appointed to the Commission by the same appointing authority.

(3) VACANCIES.—Any vacancy in the membership of the Commission shall be filled in the manner in which the original appointment was made and shall not affect the power of the remaining members to execute the duties of the Commission.

(4) QUORUM.—A quorum shall consist of 8 members of the Commission, except that 4 members may conduct a hearing under subsection (f).

(5) MEETINGS.—

(A) The Commission shall meet at the call of its Chairman or a majority of its members.

(B) The Commission shall hold its first meeting not later than February 1, 1998.

(6) COMPENSATION AND REIMBURSEMENT OF EXPENSES.—Members of the Commission are not entitled to receive compensation for service on the Commission. Members may be reimbursed for travel, subsistence, and other necessary expenses incurred in carrying out the duties of the Commission.

(d) ADVISORY PANEL.—

(1) IN GENERAL.—The Chairman, in consultation with the Vice Chairman, may establish a panel (in this section referred to as the "Advisory Panel") consisting of health care experts, consumers, providers, and others to advise and assist the members of the Commission in carrying out the duties described in subsection (b). The panel shall have only those powers that the Chairman, in consultation with the Vice Chairman, determines are necessary and appropriate to assist the Commission in carrying out such duties.

(2) COMPENSATION.—Members of the Advisory Panel are not entitled to receive compensation for service on the Advisory Panel. Subject to the approval of the chairman of the Commission, members may be reimbursed for travel, subsistence, and other necessary expenses incurred in carrying out the duties of the Advisory Panel.

(e) STAFF AND CONSULTANTS.—

(1) STAFF.—The Commission may appoint and determine the compensation of such staff as may be necessary to carry out the duties of the Commission. Such appointments and compensation may be made without regard to the provisions of title 5, United States Code, that govern appointments in the competitive services, and the provisions of chapter 51 and subchapter III of chapter 53 of such title that relate to classifications and the General Schedule pay rates.

(2) CONSULTANTS.—The Commission may procure such temporary and intermittent services of consultants under section 3109(b) of title 5, United States Code, as the Commission determines to be necessary to carry out the duties of the Commission.

(f) POWERS.—

(1) HEARINGS AND OTHER ACTIVITIES.—For the purpose of carrying out its duties, the Commission may hold such hearings and undertake such other activities as the Commission determines to be necessary to carry out its duties.

(2) STUDIES BY GAO.—Upon the request of the Commission, the Comptroller General shall conduct such studies or investigations as the Commission determines to be necessary to carry out its duties.

(3) COST ESTIMATES BY CONGRESSIONAL BUDGET OFFICE.—

(A) Upon the request of the Commission, the Director of the Congressional Budget Office shall provide to the Commission such cost estimates as the Commission determines to be necessary to carry out its duties.

(B) The Commission shall reimburse the Director of the Congressional Budget Office for expenses relating to the employment in the office of the Director of such additional staff as may be necessary for the Director to comply with requests by the Commission under subparagraph (A).

(4) DETAIL OF FEDERAL EMPLOYEES.—Upon the request of the Commission, the head of any Federal agency is authorized to detail, without reimbursement, any of the personnel of such agency to the Commission to assist the Commission in carrying out its duties. Any such detail shall not interrupt or otherwise affect the civil service status or privileges of the Federal employee.

(5) TECHNICAL ASSISTANCE.—Upon the request of the Commission, the head of a Federal agency shall provide such technical assistance to the Commission as the Commission determines to be necessary to carry out its duties.

(6) USE OF MAILS.—The Commission may use the United States mails in the same manner and under the same conditions as Federal agencies and shall, for purposes of the frank, be considered a commission of Congress as described in section 3215 of title 39, United States Code.

(7) OBTAINING INFORMATION.—The Commission may secure directly from any Federal agency information necessary to enable it to carry out its duties, if the information may be disclosed under section 552 of title 5, United States Code. Upon request of the Chairman of the Commission, the head of such agency shall furnish such information to the Commission.

(8) ADMINISTRATIVE SUPPORT SERVICES.—Upon the request of the Commission, the Administrator of General Services shall provide to the Commission on a reimbursable basis such administrative support services as the Commission may request.

(9) PRINTING.—For purposes of costs relating to printing and binding, including the cost of personnel detailed from the Government Printing Office, the Commission shall be deemed to be a committee of the Congress.

(g) REPORT.—Not later than May 1, 1999, the Commission shall submit to Congress a report containing its findings and recommendations regarding how to protect and preserve the medicare program in a financially solvent manner until 2030 (or, if later, throughout the period of projected solvency of the Federal Old-Age and Survivors Insurance Trust Fund). The report shall include detailed recommendations for appropriate legislative initiatives respecting how to accomplish this objective.

(h) TERMINATION.—The Commission shall terminate 30 days after the date of submission of the report required in subsection (g).

(i) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated $1,500,000 to carry out this section. 60 percent of such appropriation shall be payable from the Federal Hospital Insurance Trust Fund, and 40 percent of such appropriation shall be payable from the Federal Supplementary Medical Insurance Trust Fund under title XVIII of the Social Security Act (42 U.S.C. 1395i, 1395t).

CHAPTER 4—PROVISIONS RELATING TO DIRECT GRADUATE MEDICAL EDUCATION

SEC. 10731. LIMITATION ON PAYMENT BASED ON NUMBER OF RESIDENTS AND IMPLEMENTATION OF ROLLING AVERAGE FTE COUNT.

Section 1886(h)(4) (42 U.S.C. 1395ww(h)(4)) is amended by adding after subparagraph (E) the following:

"(F) LIMITATION ON NUMBER OF RESIDENTS FOR CERTAIN FISCAL YEARS.—Such rules shall provide that for purposes of a cost reporting period beginning on or after October 1, 1997, the total number of full-time equivalent residents before application of weighting factors (as determined under this paragraph) with respect to a hospital's approved medical residency training program may not exceed the number of full-time equivalent residents with respect to the hospital's cost reporting period ending on or before December 31, 1996. The Secretary may establish rules, consistent with the policies in the previous sentence and paragraph (6), with respect to the application of the previous sentence in the case of medical residency training programs established on or after January 1, 1997.

AMENDMENT OFFERED BY MR. ENGLISH OF PENNSYLVANIA
TO THE SUBSTITUTE OFFERED BY MR. ARCHER AND MR. THOMAS

Purpose: To require the "Baby Boomer" Commission to consider and report on establishing a permanent independent Commission on Medicare.

On page 266, line 28, strike "and".

On page 268, line 32, strike the period and insert a comma and "and".

On page 266, between lines 32 and 33, insert the following:

(C) study the feasibility and desirablity of establishing--

(i) an independent Commission on Medicare to make recommendations annually on how best to match the structure of the Medicare program to available funding for the program,

(ii) an expedited process for consideration of such recommendations by Congress, and

(iii) a default mechanism to enforce Congressional spending targets for the program if Congress fails to approve such recommendations.

On page 270, line 33, insert "(1)" after "REPORT.--".

On page 271, between lines 4 and 5, insert the following:

(2) Not later than 12 months after the date of the enactment of this Act, the Commission shall report to the Congress on the matters specified in subsection (b)(1)(C). If the Commission determines that it is feasible and desirable to establish the processes described in such section, the report under this paragraph shall include specific recommendations on such changes in law (such as changes in the Congressional Budget Act of 1974 and the Balanced Budget and Emergency Deficit Control Act of 1985) as are needed to implement its recommendations.

Commerce

Commission

and ending with 2003) shall be equal to 50 percent of the monthly actuarial rate determined under subparagraph (A) increased by the following proportion of the difference between such premium and the monthly premium otherwise determined under paragraph (3) (without regard to this paragraph):

"(i) For a month in 1998, 1/7.

"(ii) For a month in 1999, 2/7.

"(iii) For a month in 2000, 3/7.

"(iv) For a month in 2001, 4/7.

"(v) For a month in 2002, 5/7.

"(vi) For a month in 2003, 6/7.".

(e) MAINTAINING APPEAL RIGHTS FOR HOME HEALTH SERVICES.—Section 1869(b)(2)(B) (42 U.S.C. 1395ff(b)(2)(B)) is amended by inserting "(or $100 in the case of home health services)" after "$500".

(f) EFFECTIVE DATE.—The amendments made by this section apply to services furnished on or after October 1, 1997.

CHAPTER 3—BABY BOOM GENERATION MEDICARE COMMISSION

SEC. 4721. BIPARTISAN COMMISSION ON THE EFFECT OF THE BABY BOOM GENERATION ON THE MEDICARE PROGRAM.

(a) ESTABLISHMENT.—There is established a commission to be known as the Bipartisan Commission on the Effect of the Baby Boom Generation on the Medicare Program (in this section referred to as the "Commission").

(b) DUTIES.—

(1) IN GENERAL.—The Commission shall—

(A) examine the financial impact on the medicare program of the significant increase in the number of medicare eligible individuals which will occur beginning approximately during 2010 and lasting for approximately 25 years, and

(B) make specific recommendations to the Congress respecting a comprehensive approach to preserve the medicare program for the period during which such individuals are eligible for medicare.

(2) CONSIDERATIONS IN MAKING RECOMMENDATIONS.—In making its recommendations, the Commission shall consider the following:

(A) The amount and sources of Federal funds to finance the medicare program, including the potential use of innovative financing methods.

(B) Methods used by other nations to respond to comparable demographic patterns in eligibility for health care benefits for elderly and disabled individuals.

(C) Modifying age-based eligibility to correspond to changes in age-based eligibility under the OASDI program.

(D) Trends in employment-related health care for retirees, including the use of medical savings accounts and similar financing devices.

(E) The role medicare should play in addressing the needs of persons with chronic illness.

(c) MEMBERSHIP.—

(1) APPOINTMENT.—The Commission shall be composed of 15 voting members as follows:

(A) The Majority Leader of the Senate shall appoint, after consultation with the minority leader of the Senate, 6 members, of whom not more than 4 may be of the same political party.

(B) The Speaker of the House of Representatives shall appoint, after consultation with the minority leader of the House of Representatives, 6 members, of whom not more than 4 may be of the same political party.

(C) The 3 ex officio members of the Board of Trustees of the Federal Hospital Insurance Trust Fund and of the Federal Supplementary Medical Insurance Trust Fund who are Cabinet level officials.

(2) CHAIRMAN AND VICE CHAIRMAN.—As the first item of business at the Commission's first meeting (described in paragraph (5)(B)), the Commission shall elect a Chairman and Vice Chairman from among its members.

The individuals elected as Chairman and Vice Chairman may not be of the same political party and may not have been appointed to the Commission by the same appointing authority.

(3) VACANCIES.—Any vacancy in the membership of the Commission shall be filled in the manner in which the original appointment was made and shall not affect the power of the remaining members to execute the duties of the Commission.

(4) QUORUM.—A quorum shall consist of 8 members of the Commission, except that 4 members may conduct a hearing under subsection (f).

(5) MEETINGS.—

(A) The Commission shall meet at the call of its Chairman or a majority of its members.

(B) The Commission shall hold its first meeting not later than February 1, 1998.

(6) COMPENSATION AND REIMBURSEMENT OF EXPENSES.—Members of the Commission are not entitled to receive compensation for service on the Commission. Members may be reimbursed for travel, subsistence, and other necessary expenses incurred in carrying out the duties of the Commission.

(d) ADVISORY PANEL.—

(1) IN GENERAL.—The Chairman, in consultation with the Vice Chairman, may establish a panel (in this section referred to as the "Advisory Panel") consisting of health care experts, consumers, providers, and others to advise and assist the members of the Commission in carrying out the duties described in subsection (b). The panel shall have only those powers that the Chairman, in consultation with the Vice Chairman, determines are necessary and appropriate to assist the Commission in carrying out such duties.

(2) COMPENSATION.—Members of the Advisory Panel are not entitled to receive compensation for service on the Advisory Panel. Subject to the approval of the chairman of the Commission, members may be reimbursed for travel,

subsistence, and other necessary expenses incurred in carrying out the duties of the Advisory Panel.

(e) STAFF AND CONSULTANTS.—

(1) STAFF.—The Commission may appoint and determine the compensation of such staff as may be necessary to carry out the duties of the Commission. Such appointments and compensation may be made without regard to the provisions of title 5, United States Code, that govern appointments in the competitive services, and the provisions of chapter 51 and subchapter III of chapter 53 of such title that relate to classifications and the General Schedule pay rates.

(2) CONSULTANTS.—The Commission may procure such temporary and intermittent services of consultants under section 3109(b) of title 5, United States Code, as the Commission determines to be necessary to carry out the duties of the Commission.

(f) POWERS.—

(1) HEARINGS AND OTHER ACTIVITIES.—For the purpose of carrying out its duties, the Commission may hold such hearings and undertake such other activities as the Commission determines to be necessary to carry out its duties.

(2) STUDIES BY GAO.—Upon the request of the Commission, the Comptroller General shall conduct such studies or investigations as the Commission determines to be necessary to carry out its duties.

(3) COST ESTIMATES BY CONGRESSIONAL BUDGET OFFICE.—

(A) Upon the request of the Commission, the Director of the Congressional Budget Office shall provide to the Commission such cost estimates as the Commission determines to be necessary to carry out its duties.

(B) The Commission shall reimburse the Director of the Congressional Budget Office for expenses relating to the employment in the office of the Director of such additional staff as may be necessary for the Director to comply with requests by the Commission under subparagraph (A).

(4) DETAIL OF FEDERAL EMPLOYEES.—Upon the request of the Commission, the head of any Federal agency is authorized to detail, without reimbursement, any of the personnel of such agency to the Commission to assist the Commission in carrying out its duties. Any such detail shall not interrupt or otherwise affect the civil service status or privileges of the Federal employee.

(5) TECHNICAL ASSISTANCE.—Upon the request of the Commission, the head of a Federal agency shall provide such technical assistance to the Commission as the Commission determines to be necessary to carry out its duties.

(6) USE OF MAILS.—The Commission may use the United States mails in the same manner and under the same conditions as Federal agencies and shall, for purposes of the frank, be considered a commission of Congress as described in section 3215 of title 39, United States Code.

(7) OBTAINING INFORMATION.—The Commission may secure directly from any Federal agency information necessary to enable it to carry out its duties, if the information may be disclosed under section 552 of title 5, United States Code. Upon request of the Chairman of the Commission, the head of such agency shall furnish such information to the Commission.

(8) ADMINISTRATIVE SUPPORT SERVICES.—Upon the request of the Commission, the Administrator of General Services shall provide to the Commission on a reimbursable basis such administrative support services as the Commission may request.

(9) PRINTING.—For purposes of costs relating to printing and binding, including the cost of personnel detailed from the Government Printing Office, the Commission shall be deemed to be a committee of the Congress.

(g) REPORT.—Not later than May 1, 1999, the Commission shall submit to Congress a report containing its findings and recommendations regarding how to protect and preserve the medicare program in a financially solvent manner until 2030 (or, if later, throughout the period of projected solvency of the Federal Old-Age and Survivors Insurance Trust Fund). The report shall include detailed recommendations for appropriate legislative initiatives respecting how to accomplish this objective.

(h) TERMINATION.—The Commission shall terminate 30 days after the date of submission of the report required in subsection (g).

(i) AUTHORIZATION OF APPROPRIATIONS.—There are authorized to be appropriated $1,500,000 to carry out this section. 60 percent of such appropriation shall be payable from the Federal Hospital Insurance Trust Fund, and 40 percent of such appropriation shall be payable from the Federal Supplementary Medical Insurance Trust Fund under title XVIII of the Social Security Act (42 U.S.C. 1395i, 1395t).

CHAPTER 4—PROVISIONS RELATING TO DIRECT GRADUATE MEDICAL EDUCATION

SEC. 4731. LIMITATION ON PAYMENT BASED ON NUMBER OF RESIDENTS AND IMPLEMENTATION OF ROLLING AVERAGE FTE COUNT.

Section 1886(h)(4) (42 U.S.C. 1395ww(h)(4)) is amended by adding after subparagraph (E) the following:

"(F) LIMITATION ON NUMBER OF RESIDENTS FOR CERTAIN FISCAL YEARS.—Such rules shall provide that for purposes of a cost reporting period beginning on or after October 1, 1997, the total number of full-time equivalent residents before application of weighting factors (as determined under this paragraph) with respect to a hospital's approved medical residency training program may not exceed the number of full-time equivalent residents with respect to the hospital's cost reporting period ending on or before December 31, 1996. ac

"(G) COUNTING INTERNS AND RESIDENTS FOR FY 1998 AND SUBSEQUENT YEARS.—

"(i) FY 1998.—For the hospital's first cost reporting period beginning on or after October 1,

Roth/
Moynihan

II

105TH CONGRESS
1ST SESSION

S. 341

To establish a bipartisan commission to study and provide recommendations on restoring the financial integrity of the medicare program under title XVIII of the Social Security Act.

IN THE SENATE OF THE UNITED STATES

FEBRUARY 13, 1997

Mr. ROTH (for himself and Mr. MOYNIHAN) introduced the following bill; which was read twice and referred to the Committee on Finance

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A BILL

To establish a bipartisan commission to study and provide recommendations on restoring the financial integrity of the medicare program under title XVIII of the Social Security Act.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "National Bipartisan Commission on the Future of Medicare Act of 1997".

SEC. 2. ESTABLISHMENT.

There is established a commission to be known as the National Bipartisan Commission on the Future of Medicare (referred to in this Act as the "Commission").

SEC. 3. FINDINGS.

The Congress finds that—

(1) the medicare program under title XVIII of the Social Security Act (42 U.S.C. 1395 et seq.) provides essential health care coverage to this Nation's senior citizens and to individuals with disabilities;

(2) the Federal Hospital Insurance Trust Fund established under that Act has been spending more than it receives since 1995, and will be bankrupt in the year 2001;

(3) the Federal Hospital Insurance Trust Fund faces even greater solvency problems in the long run with the aging of the baby boom generation and the continuing decline in the number of workers paying into the medicare program for each medicare beneficiary;

(4) the trustees of the trust funds of the medicare program have reported that growth in spending within the Federal Supplementary Medical Insurance Trust Fund established under that Act is unsustainable; and

(5) expeditious action is needed in order to restore the financial integrity of the medicare program and to maintain this Nation's commitment to senior citizens and to individuals with disabilities.

SEC. 4. DUTIES OF THE COMMISSION.

The Commission shall—

(1) review and analyze the long-term financial condition of the medicare program under title XVIII of the Social Security Act (42 U.S.C. 1395 et seq.);

(2) identify problems that threaten the financial integrity of the Federal Hospital Insurance Trust Fund and the Federal Supplementary Medical Insurance Trust Fund established under that title (42 U.S.C. 1395i, 1395t);

(3) analyze potential solutions to the problems identified under paragraph (2) that will ensure both the financial integrity of the medicare program and the provision of appropriate benefits under such program;

(4) make recommendations to restore the solvency of the Federal Hospital Insurance Trust Fund and the financial integrity of the Federal Supplementary Medical Insurance Trust Fund through the year 2030, when the last of the baby boomers reaches age 65;

(5) make recommendations for establishing the appropriate financial structure of the medicare program as a whole;

(6) make recommendations for establishing the appropriate balance of benefits covered and beneficiary contributions to the medicare program;

(7) make recommendations for the time periods during which the recommendations described in paragraphs (4), (5), and (6) should be implemented; and

(8) review and analyze such other matters as the Commission deems appropriate.

SEC. 5. MEMBERSHIP.

(a) NUMBER AND APPOINTMENT.—The Commission shall be composed of 15 members, of whom—

(1) three shall be appointed by the President;

(2) six shall be appointed by the Majority Leader of the Senate, in consultation with the Minority Leader of the Senate, of whom not more than 4 shall be of the same political party; and

(3) six shall be appointed by the Speaker of the House of Representatives, in consultation with the Minority Leader of the House of Representatives, of whom not more than 4 shall be of the same political party.

(b) COMPTROLLER GENERAL.—The Comptroller General of the United States shall advise the Commission on the methodology to be used in identifying problems and analyzing potential solutions in accordance with the duties of the Commission described in section 4.

(c) TERMS OF APPOINTMENT.—The members shall serve on the Commission for the life of the Commission.

(d) MEETINGS.—The Commission shall locate its headquarters in the District of Columbia, and shall meet at the call of the Chairperson.

(e) QUORUM.—Ten members of the Commission shall constitute a quorum, but a lesser number may hold hearings.

(f) CHAIRPERSON.—The Speaker of the House of Representatives, in consultation with the Majority Leader of the Senate, shall designate 1 of the members appointed under subsection (a) as Chairperson of the Commission.

(g) VACANCIES.—A vacancy on the Commission shall be filled in the same manner in which the original appointment was made not later than 30 days after the Commission is given notice of the vacancy.

(h) COMPENSATION.—Members of the Commission shall receive no additional pay, allowances, or benefits by reason of their service on the Commission.

(i) EXPENSES.—Each member of the Commission shall receive travel expenses and per diem in lieu of subsistence in accordance with sections 5702 and 5703 of title 5, United States Code.

SEC. 6. STAFF AND SUPPORT SERVICES.

(a) EXECUTIVE DIRECTOR.—

(1) APPOINTMENT.—The Chairperson shall appoint an executive director of the Commission.

(2) COMPENSATION.—The executive director shall be paid the rate of basic pay for level V of the Executive Schedule.

(b) STAFF.—With the approval of the Commission, the executive director may appoint such personnel as the executive director considers appropriate.

(c) APPLICABILITY OF CIVIL SERVICE LAWS.—The staff of the Commission shall be appointed without regard to the provisions of title 5, United States Code, governing appointments in the competitive service, and shall be paid without regard to the provisions of chapter 51 and subchapter III of chapter 53 of such title (relating to classification and General Schedule pay rates).

(d) EXPERTS AND CONSULTANTS.—With the approval of the Commission, the executive director may procure temporary and intermittent services under section 3109(b) of title 5, United States Code.

(e) STAFF OF FEDERAL AGENCIES.—Upon the request of the Commission, the head of any Federal agency may detail any of the personnel of such agency to the Commission to assist in carrying out the duties of the Commission.

(f) OTHER RESOURCES.—The Commission shall have reasonable access to materials, resources, statistical data, and other information from the Library of Congress and agencies and elected representatives of the executive and legislative branches of the Federal Government. The Chairperson of the Commission shall make requests for such access in writing when necessary.

(g) PHYSICAL FACILITIES.—The Administrator of the General Services Administration shall locate suitable office space for the operation of the Commission. The facilities shall serve as the headquarters of the Commission and shall include all necessary equipment and incidentals required for the proper functioning of the Commission.

SEC. 7. POWERS OF COMMISSION.

(a) HEARINGS.—The Commission may conduct public hearings or forums at the discretion of the Commission, at any time and place the Commission is able to secure facilities and witnesses, for the purpose of carrying out the duties of the Commission.

(b) GIFTS.—The Commission may accept, use, and dispose of gifts or donations of services or property.

(c) MAILS.—The Commission may use the United States mails in the same manner and under the same conditions as other Federal agencies.

SEC. 8. REPORT.

Not later than 1 year after the date of the enactment of this Act, the Commission shall submit a report to the President and Congress which shall contain a detailed statement of the recommendations, findings, and conclusions of the Commission.

SEC. 9. TERMINATION.

The Commission shall terminate on the date which is 30 days after the date the Commission submits its report to the President and to Congress under section 8.

SEC. 10. FUNDING.

There is authorized to be appropriated to the Commission such sums as are necessary to carry out the purposes of this Act. Sums appropriated under this section shall be paid equally from the Federal Hospital Insurance Trust Fund and from the Federal Supplementary Medical Insurance Trust Fund under title XVIII of the Social Security Act (42 U.S.C. 1395i, 1395t).

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SAVING SOCIAL SECURITY NOW
AND
MEETING AMERICA'S CHALLENGES
FOR THE 21st CENTURY

In His State of the Union Address, President Clinton Put Forward His Framework To Save Social Security Now, While Meeting America's Challenges for the 21st Century. The President and Vice President's framework strengthens Social Security by:

- Transferring 62 percent of the projected budget surpluses over the next 15 years -- more than $2.7 trillion -- to the Social Security system.
- Investing a portion of the transferred surpluses in the private sector to achieve higher returns for Social Security -- just as any state or local government, or private pension does -- after working with Congress to devise a mechanism to ensure that the investments are made independently and without political interference. We will support using a broad-based neutral approach managed by the private sector with minimum administrative costs.
- Keeping Social Security solvent until 2055.
- Calling for a bipartisan effort to make the hard-headed but sensible and achievable choices needed to save Social Security until at least 2075. As part of this effort, President Clinton and Vice President Gore believe that we must:

In all health plans

  - Reduce poverty among elderly women -- particularly widows, who have a poverty rate nearly twice the overall poverty rate for older Americans.
  - Eliminate the confusing and out-dated earnings test so that we stop discouraging work and earnings among older Americans.

After Social Security Reform Is Secured -- Consistent With the President's "Save Social Security First" Commitment -- the President Proposes To:

- **Strengthen Medicare for the 21st Century.** The President's framework will reserve 15 percent of the projected surpluses for Medicare, ensuring the Medicare Trust Fund is secure for 20 years. The President believes that these new resources should be used to help achieve broader, bipartisan reforms -- which should include a prescription drug benefit.
- **Create New Universal Savings Accounts -- USA Accounts.** The President's framework will reserve 11 percent of the projected surpluses to create new Universal Savings Accounts (USAs) so all working Americans can build wealth to meet their retirement needs. To help Americans save and to strengthen our current pension system, the government will provide an equal dollar contribution for most Americans. In addition, the government will match a portion of each additional dollar an individual puts voluntarily into his/her USA account -- with larger matches going to lower-income workers.
- **Prepare America for the Challenges of the Future.** The President's framework will reserve 11 percent of the projected surpluses for military readiness and pressing national domestic priorities, such as education and research.

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SAVE SOCIAL SECURITY NOW: STRENGTHENING SOCIAL SECURITY FOR THE 21st CENTURY

In His State of the Union Address, President Clinton Put Forward A Framework To Strengthen Social Security Now. Since its creation more than 60 years ago, Social Security has been a bedrock of retirement security for Americans. There are 76 million baby boomers looking ahead to retirement. By 2030, there will be twice as many elderly as there are today, putting pressure on the Social Security system. After 2032, if we do nothing, the Trust Fund will be exhausted and Social Security will have only enough resources to cover 72 cents per dollar of promised benefits. President Clinton and Vice President Gore believe we must act now to tackle this tough, long-term challenge. That is why they are proposing to:

<u>Use the Budget Surplus To Save Social Security Now</u>

- **"Saving Social Security First."** Last year, in his State of the Union Address, President Clinton promised to save the budget surplus until we knew how much would be needed to save Social Security for the 21st century. This year, in his State of the Union Address, President Clinton reiterated his pledge to save Social Security first -- committing to reserve the budget surplus until Social Security reform is secured.

- **62 Percent of the Projected Budget Surpluses Will Be Used to Save Social Security.** President Clinton proposes to transfer 62 percent of the projected budget surpluses over the next 15 years -- more than $2.7 trillion -- to Social Security.

<u>Invest A Portion of the Surpluses To Achieve Higher Returns for Social Security</u>

- **Invest Portion of Surpluses To Achieve Higher Returns, Working With Congress to Devise A Mechanism to Ensure Independent and Non-Political Investments.** We want to work with Members of Congress from both sides of the aisle to craft a bipartisan Social Security plan which invests a portion of the surplus transferred to Social Security to achieve higher returns, and includes a mechanism to ensure that investments are made independently and without political interference. We will support using a broad-based neutral approach managed by the private sector with minimum administrative costs.

    - To achieve higher returns for Social Security, less than one-quarter of the transferred surpluses will be invested in the stock market.

<u>Save Social Security Until 2055 -- And Work Together To Save It Until At Least 2075</u>

- **President's Framework Keeps Social Security Solvent Through 2055.** By transferring 62 percent of the projected surpluses for the next 15 years to Social Security and investing a portion of them in the market -- just like any private or state or local government pension does -- we will ensure that Social Security is on sound footing for 55 years -- until 2055.

- **Must Work Together -- Across Party Lines -- To Make Hard-Headed, But Sensible and Achievable Choices To Save Social Security for 75 Years.** President Clinton's goal is to save Social Security for 75 years. To do so, he believes we must work together in a bipartisan way to make the hard-headed, but sensible and achievable choices to save Social Security through at least 2075.

Publicly Held Debt Will Fall To Lowest As Share of GDP Since 1917

- **Turning Around America's Fiscal Position.** Under Presidents Reagan and Bush, the debt held by the public quadrupled, rising from $785 billion in 1981 to $3.2 trillion in 1993. As a share of the economy, the publicly held debt increased from 26 percent in 1981 to 50 percent in 1993. Since President Clinton took office, the publicly held debt as a share of GDP has dropped to about 45 percent.

- **Debt-to-GDP Ratio Will Fall to Lowest Level Since 1917.** Under the President's framework, current projections suggest that the publicly held debt, as a share of GDP, will fall from about 45 percent today to less than 10 percent in 2014 -- its lowest level since 1917.

Reduce Poverty Among Elderly Women -- Particularly Widows

- **Poverty Rates Among Elderly Women -- Particularly Widows -- Remain High.** The poverty rate for all elderly women was 13.1 percent in 1997. For widowed women, poverty rates are especially high: the poverty rate is 18.0 percent for widowed women -- nearly four times the poverty rate of married women (4.6 percent) and much higher than the poverty rate of widowed men (11.4 percent).

- **President's Framework Would Lower Poverty Rates Among Elderly Women -- Especially Widows.** Currently, widow benefits vary from 50 to 67 percent of benefits for a married couple when both members were alive. The official poverty thresholds imply that a widow needs over 75 percent of a couple's income to maintain her pre-widowhood consumption. This is a key reason why widow poverty is so much higher than overall elderly poverty. The President is committed to reducing the loss of Social Security income at widowhood.

Eliminate the Out-Dated and Confusing Earnings Test

- **President Clinton Believes We Should Eliminate The Earnings Test.** President Clinton believes that the earnings test has outlived its use. Today, it primarily serves to confuse people, and to discourage them from working. We want to work with Members of Congress to eliminate the earnings test as part of a comprehensive package to strengthen Social Security for the 21st century.

- **Earnings Test Should Be Eliminated Because It Is Out-Dated And Confusing -- And It Discourages Work and Earnings Among the Elderly.** The Social Security earnings test is a confusing relic of a past era. It discourages the elderly from working. It is administratively complicated; administering the earnings test imposes significant administrative burden on the Social Security Administration. Finally, eliminating the earnings limit would have almost no effect on the long-run actuarial balance of the Social Security system.

MEETING AMERICA'S CHALLENGES FOR THE 21st CENTURY

After Social Security Reform Is Secured -- Consistent With the President's "Save Social Security First" Commitment -- The President Proposes To Meet The Following Three Challenges:

STRENGTHENING MEDICARE FOR THE 21st CENTURY

RESERVE 15 PERCENT OF THE PROJECTED SURPLUSES FOR MEDICARE, EXTENDING THE LIFE OF THE MEDICARE TRUST FUND UNTIL 2020.

- **We Must Prepare for the Health Care Challenges of the Next Century.** In its 30-year history, Medicare has contributed to longer lives and better lives for America's elderly and disabled. However, Medicare -- like Social Security -- will be impacted by the tidal wave of the "Senior Boom." Its enrollment is expected to double by 2030. In addition, Medicare -- as well as the private sector -- faces escalating health care costs. As a result, the Medicare Trust Fund is expected to run out in 2008, if no actions are taken.

- **Reserving Nearly One in Six Dollars of Surplus to Help Keep Medicare Safe Until 2020.** The President's framework would reserve 15 percent of the projected surpluses -- $650-$700 billion -- over the next 15 years for the Medicare Trust Fund. These funds would be prohibited from being used for any other purpose, ensuring that the money will go to help the health care needs of older and disabled Americans. Even in the absence of broader reforms, the President's framework would guarantee that Medicare can continue to provide its critical health services until 2020 -- doubling the life of the Medicare Trust Fund and providing the strongest outlook in the last 25 years.

- **New Funds Should Be Used To Help Achieve Broader, Bipartisan Reform.** The President believes that the Medicare Commission and Congress should utilize these new dedicated dollars as part of broader, bipartisan reforms. Such reforms, including the development of a long-overdue prescription drug benefit, are essential to provide efficient health care to the elderly and people with disabilities in the 21st century.

UNIVERSAL SAVINGS ACCOUNTS (USAs)

RESERVE 11 PERCENT OF THE PROJECTED SURPLUSES TO CREATE NEW UNIVERSAL SAVINGS ACCOUNTS (USAs) SO EVERY WORKING AMERICAN CAN BUILD WEALTH AND A NEST EGG TO MEET THEIR RETIREMENT NEEDS.

- **USA Accounts Will Help Americans Build Wealth for Their Retirement -- Strengthening Personal Savings and Pensions.** To help supplement Social Security, the President proposes to create USA accounts to help strengthen two legs of retirement security: personal savings and pensions. Under the President's framework, we will reserve 11 percent of the projected surpluses over the next 15 years -- averaging about $33 billion per year -- to create Universal Savings Accounts (USAs), so that every working American can build wealth and a nest egg for retirement.

- **We Want to Work With Congress And Experts To Determine Precisely How USA Accounts Will Be Structured So That They Are Progressive And Help Working Americans Save for Retirement.** President Clinton believes the government should provide most Americans with a flat contribution. In addition, the government will match a portion of each dollar an individual puts into the account -- with larger percentage matches going to lower-income workers. However, we want to work with Members of Congress and pension and personal savings experts, to ensure that USA accounts build on the current private-sector pension system, are progressive, and help working Americans save for their futures. Therefore, the exact size of the contributions, match rates, and income limits will be determined later.

MILITARY READINESS AND OTHER CRITICAL INVESTMENTS IN AMERICA'S FUTURE

RESERVE 11 PERCENT OF THE PROJECTED SURPLUSES FOR MILITARY READINESS AND PRESSING NATIONAL DOMESTIC PRIORITIES, SUCH AS EDUCATION AND RESEARCH.

- **Ensuring That America's Military Continues to be Ready for the Challenges of the 21st Century.** Early in January, President Clinton proposed a bold, new strategy to ensure that America's military continues to be fully prepared to protect our national interests as the world's most powerful fighting force. President Clinton believes this approach will provide the resources to meet his proposed detailed blueprint for military readiness.

- **Ensuring We Meet Other Critical Investments In America's Future.** In addition to military readiness, the setting aside of 11 percent of the projected surpluses -- nearly $500 billion -- will allow America to meet its other critical investment needs, such as education and research.